

**CITY OF ASHEVILLE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2008**

As management of the City of Asheville (The City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Asheville for the fiscal year ended 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the City's Notes to the Financial Statements, which follow this narrative.

**FINANCIAL HIGHLIGHTS**

- The assets of the City of Asheville exceeded its liabilities at the close of the most recent fiscal year by \$367,439,552 (*net assets*). Of this amount, \$62,254,641 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$9,939,324.
- As of the close of the current fiscal year, the City of Asheville's governmental funds reported combined ending fund balances of \$42,673,606 a decrease of \$8,579,722 in comparison with the prior year. Approximately 31% or \$13,014,873 is the undesignated portion of the general fund, therefore available to spend at the government's discretion.
- At the end of the current fiscal year, reserved fund balance for governmental funds was \$16,142,291 while unreserved totaled \$26,531,315 or 28% of total governmental fund expenditures.
- The City's total long-term liabilities increased by approximately \$34.5 million during the current fiscal year. This net increase is attributable to the FY08 Water Fund bond issue of \$39 million.
- The City holds the following bond ratings:

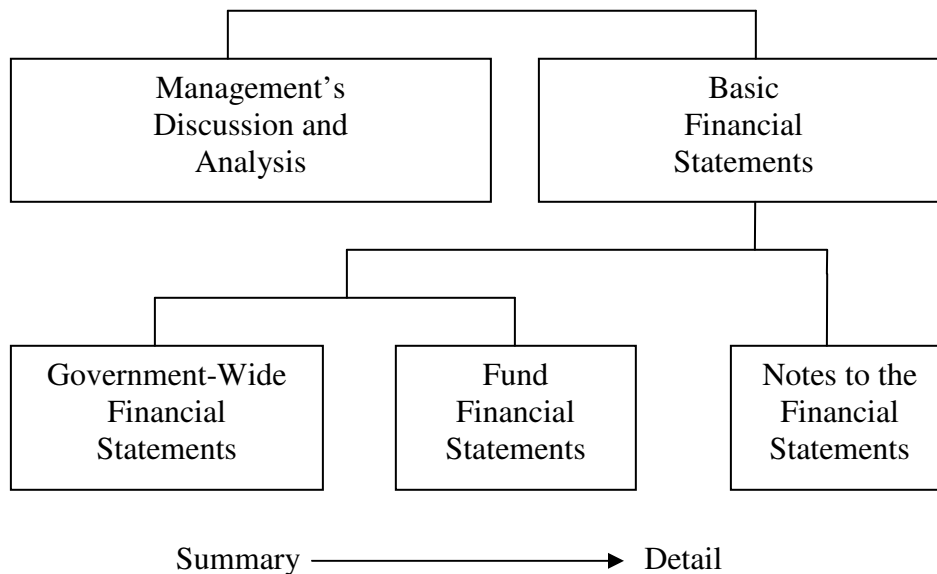
Moody's	Aa2
Standard & Poor's	AA

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City of Asheville's basic financial statements. The financial statements include two kinds of statements that present different views of the City: 1) Government-Wide Financial Statements and 2) Fund Financial Statements. Both perspectives, however, are essential and complementary components that allow the user to address relevant questions, broaden a basis for comparison, and enhance the City's accountability. Another element of the basic financial statements is the notes to the financial statements. In addition to the basic financial statements, the report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Asheville as well as compliance issues that are addressed by Government Auditing Standards, Office of Management and Budget (OMB) Circular A-133 and the North Carolina Single Audit Implementation Act.

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**Required Components of Annual Financial Report**



**Basic Financial Statements**

The first two statements (Exhibits A and B) in the basic financial statements are the **Government-wide Financial Statements**. They provide a broad overview of the City's financial position and operations, in a manner similar to a private-sector business. The *statement of net assets* presents the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving. The *statement of activities* presents information on how the city's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of related cash flows. Therefore, revenues and expenses are reported in this statement, which result in cash flows in future fiscal periods, such as uncollected taxes and earned but unused vacation leave.

Government-wide statements are divided into governmental and business-type activities. The governmental activities include most of the City's basic services such as public safety, recreation, transportation, community and economic development, and general government. Property taxes, intergovernmental revenues, and sales taxes finance about 75% of the costs of these activities. Business-type activities include water utility, stormwater management, parking, festivals, golf course, civic center, and mass transit services. These activities are primarily paid from charges to customers excluding transit which receives federal grants and transfers from general fund as its primary source of funding.

The **Fund Financial Statements** (Exhibits C through J) provide a more detailed look at the City's most significant activities. A fund is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting ensures and reflects compliance, or non-compliance, with related legal requirements, such as General Statutes, grantor provisions, or the City's budget ordinance. The funds of the City are divided into three categories: 1) the

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governmental fund statements, 2) the proprietary fund statements, and 3) the fiduciary fund statement.

***Governmental Funds.*** Governmental funds are used to account for most basic services and are reported as governmental activities in the government-wide financial statements. Governmental funds are reported using an accounting method called modified accrual accounting, which provides a short-term spending focus. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet (Exhibit C) and the governmental fund statement of revenues, expenditures, and changes in fund balances (Exhibit D) provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. (Exhibit C & E)

The City of Asheville maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Asheville adopts an annual appropriated budget for its General Fund as required by General Statute. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. (Exhibit F)

***Proprietary Funds.*** The City of Asheville maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the entity-wide financial statements. The City of Asheville uses enterprise funds to account for its Water Resources, Civic Center, Festivals, Parking Services, Golf Course, Stormwater Management, and Mass Transit Operations.

The City has one internal service fund to account for its self-insurance program. The Insurance fund is now fully operational as the City was able to change its budgeting and accounting system to allocate its charges and claims. Because these self-insurance services predominantly benefit governmental rather than business-type functions, they have been included in the governmental-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Resources Fund, which is considered to be a major fund of the City of Asheville. The basic proprietary fund financial statements can be found in Exhibit G through I of this report.

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**Fiduciary Funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Asheville's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City of Asheville maintains one agency fund, which is its only fiduciary fund. The basic fiduciary fund financial statement can be found on Exhibit J of this report.

**Notes to the Basic Financial Statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 27-57 of this report.

**Other Information:** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Asheville's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 58-59 of this report. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. The other supplemental information shows details about the City's individual funds, including budgetary information required by the North Carolina General Statutes, as well as other data that the City considers helpful to the reader.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The Government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole. The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial condition. In the case of the City of Asheville, assets exceeded liabilities by \$367,439,552 as of June 30, 2008.

By far the largest portion of the City's net assets (\$298,823,370 or 81.4%) reflects the City's investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt that is still outstanding that was issued to acquire those assets. The City of Asheville uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Asheville's investment in its capital assets is reported net of the outstanding related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets are committed to the continued provision of service and cannot be used to liquidate these liabilities. Restricted net assets, 1.7% of the City's net assets, represent resources that are subject to external restrictions. These restrictions consist of employee paid health benefits and risk management as well as reservations for perpetual care. In addition, total unrestricted net assets amounted to 16.9% of total net assets. Unrestricted net assets may be used to meet the government's ongoing obligation to citizens and creditors.

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Net Assets of the City of Asheville						
	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Current and						
Other Assets	\$ 64,083,327	\$ 62,557,296	\$ 47,377,422	\$ 86,741,213	\$ 111,460,749	\$ 149,298,509
Capital Assets	190,387,389	189,769,011	147,285,267	166,921,531	337,672,656	356,690,542
Total Assets	254,470,716	252,326,307	194,662,689	253,662,744	449,133,405	505,989,051
Non-current Liabilities	29,303,659	30,961,505	50,065,508	85,923,439	79,369,167	116,884,944
Other Liabilities	6,545,883	8,843,952	5,718,127	12,820,603	12,264,010	21,664,555
Total Liabilities	35,849,542	39,805,457	55,783,635	98,744,042	91,633,177	138,549,499
Net Assets:						
Invested in Capital						
Assets, Net of						
Related Debt	166,595,239	165,821,203	99,338,962	133,002,167	265,934,201	298,823,370
Restricted	7,272,090	6,361,541	-	-	7,272,090	6,361,541
Unrestricted	44,753,845	40,338,106	39,540,092	21,916,535	84,293,937	62,254,641
Total Net Assets	\$ 218,621,174	\$ 212,520,850	\$ 138,879,054	\$ 154,918,702	\$ 357,500,228	\$ 367,439,552

As indicated above, assets of the City exceeded liabilities by \$367,439,552 at June 30, 2008. Analysis of the business-type activities indicates that the capital assets increased \$19.6 million in fiscal year 2008. The increase is a result of several capital water system improvements.

**Governmental activities.** Net assets of governmental activities decreased by \$6,100,324. Key elements of this decrease are as follows:

- City Council appropriated approximately \$5.1 million in fund balance as a part of the FY 2007-08 adopted budget to fund high priority capital needs and other one-time operating costs.
- \$1.1 million in fund balance was appropriated mid-year in the health care program in order to fund health care expenses that exceeded initial budget estimates.
- \$2.6 million increase in the estimate for claims incurred but not reported.

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Changes in Net Assets of the City of Asheville						
	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenues:						
Program revenues:						
Charges for services	\$ 15,653,381	\$ 17,045,528	\$ 40,656,903	\$ 42,268,357	\$ 56,310,284	\$ 59,313,885
Op. grants & contributions	6,577,739	8,113,801	2,373,935	2,075,987	8,951,674	10,189,788
Cap. grants & contributions	2,374,032	103,100	3,570,539	3,750,529	5,944,571	3,853,629
General revenues:						-
Property taxes	41,254,144	42,119,109	-	-	41,254,144	42,119,109
Other taxes	23,562,645	24,003,930	-	-	23,562,645	24,003,930
Grants & contributions not						-
restr'd to spec programs	1,512,902	1,242,437	-	-	1,512,902	1,242,437
Inv earnings & misc	3,127,186	3,025,200	1,170,876	1,679,050	4,298,062	4,704,250
Gain (loss) on capital assets	(89,351)	(169,419)	51,175	20,626	(38,176)	(148,793)
Special items	5,044,004	-	-	-	5,044,004	-
Total Revenues	\$ 99,016,682	\$ 95,483,686	\$ 47,823,428	\$ 49,794,549	\$ 146,840,110	\$ 145,278,235
Expenses:						
General government	18,248,574	21,701,679	-	-	18,248,574	21,701,679
Public Safety	34,453,963	39,465,214	-	-	34,453,963	39,465,214
Highway/streets	21,238,852	21,571,388	-	-	21,238,852	21,571,388
Econ Development	5,920,353	5,046,315	-	-	5,920,353	5,046,315
Culture and recreation	9,767,235	10,121,920	-	-	9,767,235	10,121,920
Int on long-term debt	1,243,027	976,809	-	-	1,243,027	976,809
Water Resources	-	-	20,616,840	22,202,253	20,616,840	22,202,253
Civic Center	-	-	2,220,029	2,259,239	2,220,029	2,259,239
Festivals	-	-	1,314,846	1,169,695	1,314,846	1,169,695
Parking Services	-	-	1,330,059	1,768,924	1,330,059	1,768,924
Mass Transit	-	-	4,633,166	5,086,046	4,633,166	5,086,046
Stormwater	-	-	2,500,297	2,919,423	2,500,297	2,919,423
Golf Course	-	-	996,314	1,050,006	996,314	1,050,006
Total Expenses	\$ 90,872,004	\$ 98,883,325	\$ 33,611,551	\$ 36,455,586	\$ 124,483,555	\$ 135,338,911
Increase in net assets						
before transfers	8,144,678	(3,399,639)	14,211,877	13,338,963	22,356,555	9,939,324
Transfers	(2,316,936)	(2,700,685)	2,316,936	2,700,685	-	-
Increase in net assets	5,827,742	(6,100,324)	16,528,813	16,039,648	22,356,555	9,939,324
Net assets, beginning						
of year	212,793,432	218,621,174	122,350,241	138,879,054	335,143,673	357,500,228
Net assets, end of year	\$ 218,621,174	\$ 212,520,850	\$ 138,879,054	\$ 154,918,702	\$ 357,500,228	\$ 367,439,552

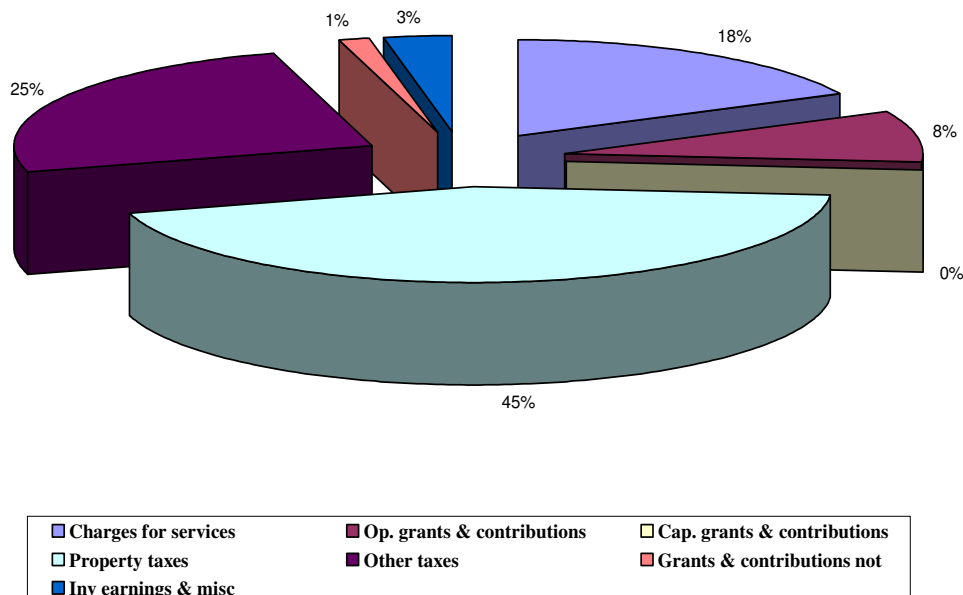
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For the most part, increases in expenses closely parallel inflation and growth in the demand for services. In Fiscal 2008 the City implemented the second year of the Market Based Compensation Plan. This caused an increase in salaries across the City. General government expenses increased by 18.9% for the fiscal year primarily due to increases in health care expenses and additional capital project spending. Public Safety expenses increased by 14.5% due to the addition of two new police beats (10 patrol officers) as well as the first full year of expenses associated with the two new fire stations that opened in July 2007. Culture and recreation expenses increased by a modest 3.6% during Fiscal 2008. This increase is primarily the result of market-based salary increases. Fiscal year 2008 expenses also included approximately \$120,000 spent to update the Parks & Greenways Master Plan. Highways/streets remained virtually flat in fiscal year 2008.

Other general government activities regarding housing initiatives include:

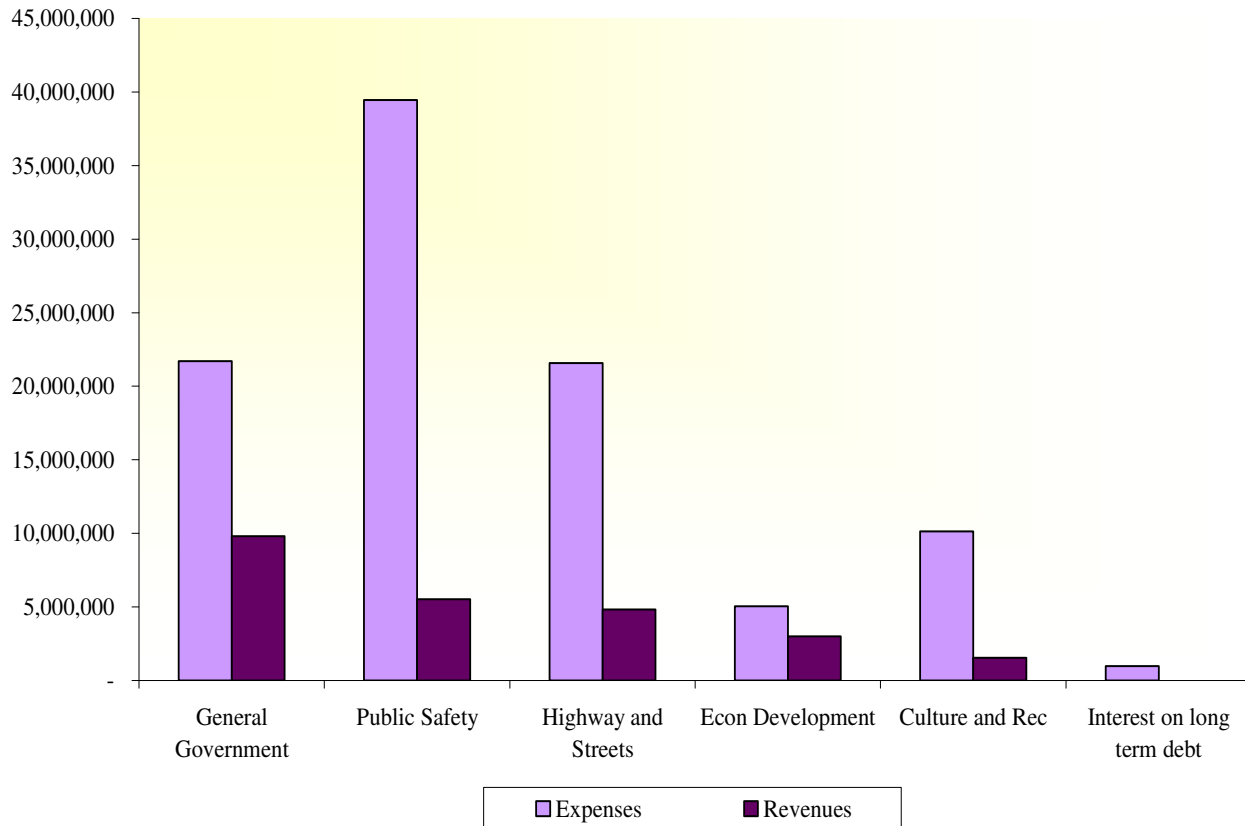
- CDBG and HOME funds assisted the production of 584 affordable housing units by the City and non-profit partners. CDBG funds were also used to assist over 5,500 people with needed services, including 85 homeless people, with an 85% retention rate for the 33 "Housing First" units completed in 2006 – 2007 of which all were occupied by chronically homeless individuals who moved out of homelessness into permanent housing, and to start or expand 49 small businesses.
- CDBG and HOME funds assisted in upgrading the transit system by adding bus shelters, benches, and route signs.

**Revenues by Source - Governmental Activities**



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**Expenses and Program Revenue - Governmental Activities**



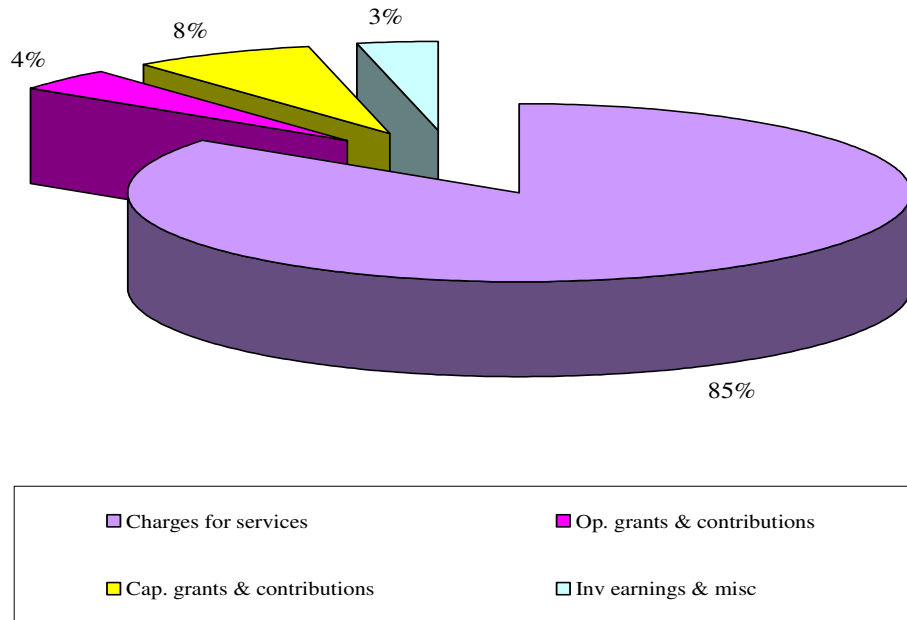
**Business-type activities.** Business-type activities increased the City of Asheville's net assets by approximately \$16.0 million for FY 2008. Key elements of this increase are as follows:

- The majority of this increase was due to the \$14.3 million increase in net assets in the Water Funds which is will be used to fund the costs of \$78.1 million of future debt service. A significant portion of this debt service is due to the FY08 Water Revenue Bond issue of \$39 million this year. These bond revenues are being used to provide for capital maintenance and infrastructure replacement of water lines and treatment facilities as well as new infrastructure installation.
- Non-major enterprise funds had a combined increase in revenue of \$1.8 million attributable mainly to the Parking Services Fund revenues of \$3,095,654 exceeding its expenses of \$2,017,040.

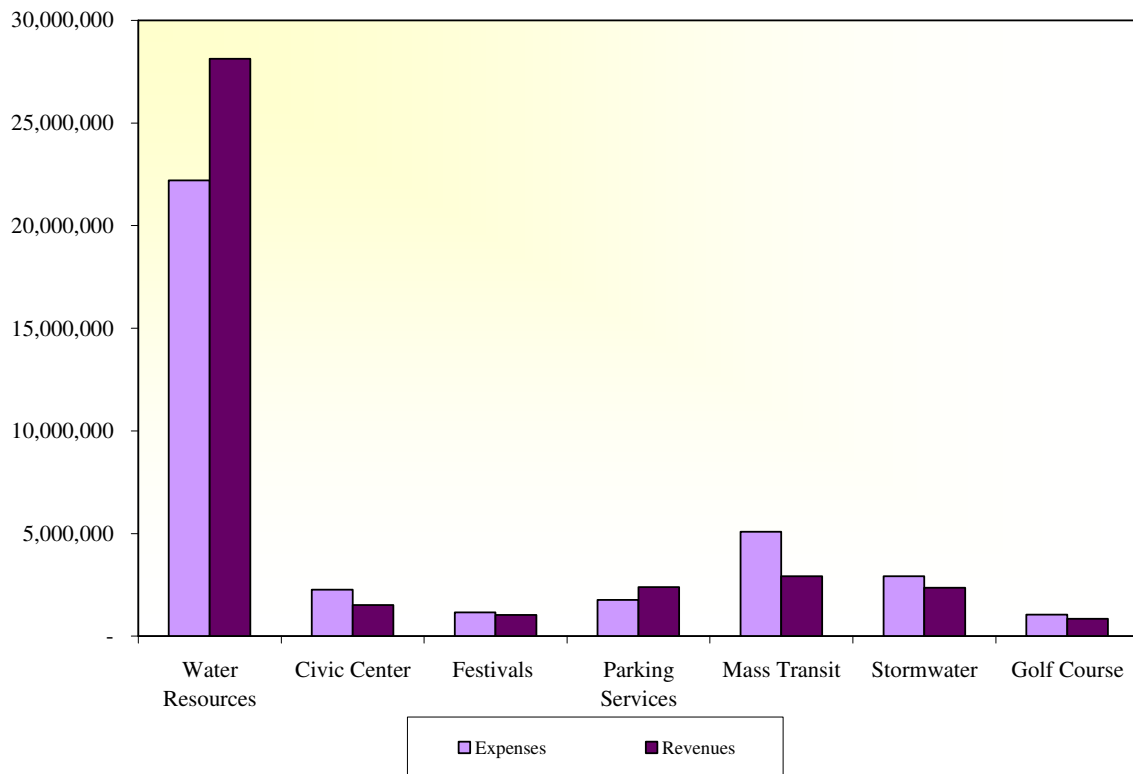


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**Revenues by Source - Business Type Activities**



**Expenses and Program Revenues - Business Type Activities**



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**Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for the governmental and business-type activities as of June 30, 2008, totals \$356,690,542 (net of accumulated depreciation). These assets include land, buildings, improvements other than buildings (infrastructure assets, such as streets, sidewalks, and water lines), machinery and equipment, and construction in progress. Major capital purchases funded in 2008 included approximately \$4.0 million for vehicle purchases in the general fund, \$1.5 million in facility and equipment maintenance, \$2.0 million for technology improvements, and \$1.4 million for parks and recreation projects.

**Capital Assets of the City of Asheville**

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Land	\$ 27,335,953	\$ 30,152,018	\$ 10,271,758	\$ 10,280,912	\$ 37,607,711	\$ 40,432,930
Buildings & Improvements	45,379,341	45,426,581	80,604,532	80,604,532	125,983,873	126,031,113
Machinery & Equipment	31,075,038	37,328,190	16,576,270	19,203,928	47,651,308	56,532,118
Infrastructure	204,948,506	205,338,959	112,545,959	118,211,394	317,494,465	323,550,353
Construction In Process	14,906,457	18,402,412	7,787,702	24,553,235	22,694,159	42,955,647
Accumulated Depreciation	(133,257,906)	(146,879,149)	(80,500,954)	(85,932,470)	(213,758,860)	(232,811,619)
Total	<u>\$ 190,387,389</u>	<u>\$ 189,769,011</u>	<u>\$ 147,285,267</u>	<u>\$166,921,531</u>	<u>\$ 337,672,656</u>	<u>\$ 356,690,542</u>

**Long-term Debt.** The City of Asheville's total general obligation and revenue bonds debt increased by \$34,745,000 during the current fiscal year in accordance with its regularly scheduled maturity dates and the new FY 2008 \$39 million Water Revenue Bond issue. The City also issued \$5.0 million in new debt in the current year to fund the replacement of the City's enterprise wide information system and various pieces of equipment in the Fire and Public Works Departments.

The City of Asheville maintains an "AA" rating from Standard & Poor's and an "Aa2" rating from Moody's for general obligation debt. This bond rating is a clear indication of the sound financial condition of the City.

State statutes limit the amount of general obligation debt a governmental entity may issue to 8% of its total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Asheville is approximately \$794,450,000, which is significantly in excess of the City's outstanding general obligation debt. Additional information regarding the City of Asheville's long-term debt can be found in Note 7 of this report.

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<b>Outstanding Debt---General Obligation and Revenue Bonds</b>						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
General Obligation						
Bonds	\$ 4,455,696	\$ 2,984,595	\$ 5,124,304	\$ 3,750,405	\$ 9,580,000	\$ 6,735,000
Revenue Bonds	-	-	40,580,000	78,170,000	40,580,000	78,170,000
Total	<u>\$ 4,455,696</u>	<u>\$ 2,984,595</u>	<u>\$ 45,704,304</u>	<u>\$ 81,920,405</u>	<u>\$ 50,160,000</u>	<u>\$ 84,905,000</u>

**General Fund Budgetary Highlights**

- The unemployment rate for Buncombe County is currently 5.1%, up from a rate of 4.0% one year ago. This compares favorably to the state's average unemployment rate of 7.0 and the national rate of 6.5%%.
- Population of 76,764 has grown 11.4% from 2000 to 2007.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City of Asheville's budget for the 2009 fiscal year.

**Budget Highlights for the Fiscal Year Ending June 30, 2009.**

The City's adopted General Fund budget for FY 2009 totaled \$88,945,552, which represents a 1.5% decrease over the FY 2008 budget. The FY 2009 budget includes a 3% average merit pay increase for City employees and funding for the third year of the market-based compensation plan and the public safety step plan. The fringe benefit budget includes a \$1.3 million increase in the General Fund's contribution to the employee health care program. The budget for operating costs is remaining flat in FY 2009. Departments were able to maintain flat operating budgets by removing one-time costs from their budgets and by reducing items such as training & travel and professional services. This achievement occurred despite significant inflation in a number of key areas, such as fuel and materials cost for asphalt and concrete. Police and Fire expenditures continue to be the largest component of the City's General Fund budget comprising 41% of the total FY 2009 General Fund budget. The budget includes six additional firefighter positions which will allow the Fire & Rescue Department to reduce the amount that is spent on overtime. The General Fund budget also includes \$2.7 million in pay-as-you-go capital improvement funding, which represents a significant reduction from the prior year when approximately \$3.7 million in fund balance was appropriated to supplement the usual pay-as-you-go capital funding stream. This funding will allow the City to replace aging vehicles in police, fire and public works and undertake several other high priority projects, including the Reed Creek Phase II greenway project.

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The fiscal year 2009 General Fund budget includes \$5.71 in debt service for the City's general obligation bonds, certificates of participation (COPs), and other general debt obligations, which is a decrease compared to the prior year. The City will issue new general fund debt in FY 2009 to fund the replacement of various large pieces of equipment in fire, police, and public works.

**Business-type Activities.** The FY 2009 budget for the Water Resources Fund includes a 4% increase in water rates which will generate approximately \$800,000 in revenue. The capital outlay budget includes funding for mandatory capital improvement projects, rolling stock, and small capital equipment. The budget includes a \$3.5 million fund balance appropriation to fund the Brevard Road NCDOT project. The debt service budget for FY 2009 totals \$7.6 million and is 21% of the total budget. The debt service budget increased by approximately \$2.4 million due to the recent issuance of \$40 million in revenue bonds for capital improvements.

During fiscal 2008, there was a \$6,157,246 increase in appropriations between the original and final amended General Fund budget. Some of the components of that increase were:

- \$4,157,244 appropriated for reserve for encumbrances;
- \$500,000 appropriated to replace a wrecked fire engine;
- \$475,000 in employee health care contributions that exceeded budget estimates;
- \$353,000 appropriated for the demolition of property;
- \$249,090 in revenue and expenses to service annexed areas that became part of the City on January 1, 2008;
- \$112,879 in state grant funding for the Nature Center;
- \$100,000 for city matching funds for the purchase of hybrid buses.

Ad valorem taxes and sales taxes both fell short of budget in FY 2008 due to the slowing economy. Ad valorem taxes grew by only 2.1%, which was less than the growth rate experienced in recent years, and came in under budget by \$171,000. The natural growth in sales tax revenue dropped to 1.2% after growing by 9.4% in the prior year. As a result, sales tax revenue came in under budget by \$567,000. The other major General Fund revenue categories – intergovernmental and charges for services – also exceeded budget estimates.

**Requests for information**

This financial report is designed to provide a general overview of the City of Asheville's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Financial Officer, City of Asheville, PO Box 7148, Asheville NC 28802.